

SENATE FINANCE COMMITTEE

February 22, 2021

9:04 a.m.

9:04:41 AM

CALL TO ORDER

Co-Chair Stedman called the Senate Finance Committee meeting to order at 9:04 a.m.

MEMBERS PRESENT

Senator Bert Stedman, Co-Chair  
Senator Lyman Hoffman  
Senator Donny Olson  
Senator Natasha von Imhof  
Senator Bill Wielechowski  
Senator David Wilson

MEMBERS ABSENT

Senator Click Bishop, Co-Chair

PRESENT VIA TELECONFERENCE

Heidi Teshner, Director, Finance and Support Services, Department of Education and Early Development; Tim Mearig, Facilities Manager, Department of Education and Early Development.

SUMMARY

^PRESENTATION: DEPARTMENT OF EDUCATION & EARLY DEVELOPMENT  
- SCHOOL MAJOR MAINTENANCE AND CONSTRUCTION UPDATE

9:05:33 AM

HEIDI TESHNER, DIRECTOR, FINANCE AND SUPPORT SERVICES, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), relayed that she would provide an overview of the School Construction and Major Maintenance Grant Program and school debt reimbursement.

Ms. Teshner discussed the presentation "State-Aid for School Capital Projects: Grant and Debt" (copy on file).

Ms. Teshner looked at slide 2, "Our Mission, Vision, and Purpose":

OUR MISSION

An excellent education for every student every day.

OUR VISION

All students will succeed in their education and work, shape worthwhile and satisfying lives for themselves, exemplify the best values of society, and be effective in improving the character and quality of the world about them. -Alaska Statute 14.03.015

OUR PURPOSE

DEED exists to provide information, resources, and leadership to support an excellent education for every student every day.

Ms. Teshner moved to slide 3, "Our Strategic Priorities: Alaska's Education Challenge":

Five Shared Priorities:

1. Support all students to read at grade level by the end of third grade
2. Increase career, technical, and culturally relevant education to meet student and workforce needs
3. Close the achievement gap by ensuring equitable educational rigor and resources
4. Prepare, attract, and retain effective education professionals
5. Improve the safety and well-being of students through school partnerships with families, communities, and tribes

Ms. Teshner shared that over the previous four years, parents, students, educators, policy makers, tribal leaders, partner organizations, and local school boards had worked to create a shared vision for public education which was reflected in Alaska's Education Challenge and priorities listed on the slide. She noted that the priorities guided the department's daily work and every program supported one or more of the priorities.

Ms. Teshner presented slide 4, "Historic School Capital Funding":

1. Federal

2. State Funding Mechanisms (General Fund)  
Grants (~1970)

General Obligation (G.O.) Bonds (2003, 2011)  
AHFC Revenue Bonds (1999, 2001, 2002)

Debt Reimbursement (1971)

School Fund - AS 43.50.140 (FY1999-present)  
Others (i.e.: Insurance Fund - AS 22.55.430)

3. Local Educational Agency (LEA)

Capital Reserves  
Municipal Debt

Ms. Teshner relayed that slide 4 was to illustrate that there had been a lot of school capital spending in the state's history.

[9:09:42 AM](#)

Ms. Teshner reviewed slide 5, "Historic Funding - All Sources [c1975 - 2021]," which showed a modified pie chart entitled '\$6.2 Billion - By Fund Type.' The graph gave a historical look at the funding from all fund sources for the School Construction Grant Fund (SCGF) and the Major Maintenance Grant Fund (MMGF), the School Debt Reimbursement Program, as well as other grants from FY 1975 through FY 2021. The slide illustrated the strong presence of school capital projects and funding that had been part of the state's process since 1975. She highlighted that school debt reimbursement represented \$3.1 billion or 51 percent of the total approximately \$6.2 billion. She noted that the capital investment of the project value was represented on the graph.

Ms. Teshner continued to address the chart of slide 5. The SCGF and MMGF were represented by the orange portion of the chart, and signified approximately \$2.4 billion or 39 percent of the total amount of state dollars appropriated by the legislature for school projects. The green portion of the chart titled 'Other Grants' was approximately \$588 million or 10 percent of the total and represented grants that had been provided to the state through other departments such as the Department of Administration and the Department of Transportation and Public Facilities. The small red portion represented federal grants and signified

approximately \$28 million or .5 percent of the total. The main purpose of the slide was to illustrate that there were different ways to fund schools, with school debt reimbursement comprising about half, and about 40 percent coming through the grant program.

Ms. Teshner spoke to slide 6, "Historic Funding - All Sources [c1975 - 2021]," which showed a modified pie chart entitled ' \$6.2 Billion - By District Type.' The chart provided a historical look of the funding over almost five decades for all fund sources but by district type from 1975 to 2021. Of the \$6.2 billion appropriated, city and borough school districts were shown to have received 67 percent or approximately \$4.1 billion. She added that Regional Educational Attendance Areas (REAAs) had received approximately \$2 billion or 33 percent, and there had been multiple statewide appropriations of approximately \$21.2 million, or .3 percent. She offered the example of statewide appropriations for asbestos remediation throughout the state, which funded projects in both district types. She noted the REAAs were established in 1974 and were areas in which there was no local government to take responsibility for education. She specified that there were 19 REAA school districts in the state.

[9:13:10 AM](#)

TIM MEARIG, FACILITIES MANAGER, DEPARTMENT OF EDUCATION AND EARLY DEVELOPMENT (via teleconference), referenced slide 7, "Recent Funding (SB 237 Report)":

SB 237 (Chapter 93 SLA 2010) - AS 14.11.035

- Annual report on school construction and major maintenance funding

- First report completed in February 2013

\$1,432,830,000 in funding

- Total project value for Debt projects

- State share value for Grant projects

Supplementary handout

- February 2021 AS 14.11.035 (SB 237) Report

- >Project Funding by District (report Appendix A)

- >Project Listing by District (report Appendix B)

Mr. Mearig noted that the current annual report on school construction and major maintenance funding had been

submitted the previous week and represented the information through the end of 2020. He explained that the most recent report had been delivered to the offices of the governor, the House, and the Senate. In the report, all of the analysis and tables depended upon the detail listings in Appendix A and Appendix B of the report, which showed projects listed by district. He referenced Handout 1, "School Capital Project Funding Under SB 237" (copy on file).

Co-Chair Stedman thought the committee was very familiar with the process that Mr. Mearig described.

Mr. Mearig discussed slide 8, "Current Funding Options":

- 1.School Construction Grant Fund (1990) AS 14.11.005
- 2.Major Maintenance Grant Fund (1993) AS 14.11.007
- 3.Regional Educational Attendance Area (REAA) and Small Municipal School District School Fund (2010) AS 14.11.030  
Indexed Fund  
DR Funding / % of C/B schools \*.244 AS 14.11.025
- 4.School Debt Reimbursement (DR) Funding AS 14.11.102

Mr. Mearig advanced to slide 9, "Current Project Categories (AS 14.11.013)":

- (A)avert imminent danger or correct life-threatening situations;
- (B)house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;
- (C)protect the structure of existing school facilities;
- (D)correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;
- (E)achieve an operating cost savings;
- (F)modify or rehabilitate facilities for the purpose of improving the instructional program;
- (G)meet an educational need not specified in (A)–(F) of this paragraph, identified by the department

Mr. Mearig shared that in statute, projects were identified in categories, and the purpose was to identify what kind of

investments the state was looking at making in school capital. The following slides would show how the categories would correspond to the different funds.

9:18:13 AM

Mr. Mearig looked at slide 10, "Current Project Categories (AS 14.11.013) (School Construction)":

- (A) avert imminent danger or correct life-threatening situations;
- (B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;
- (C) protect the structure of existing school facilities;
- (D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;
- (E) achieve an operating cost savings;
- (F) modify or rehabilitate facilities for the purpose of improving the instructional program;
- (G) meet an educational need not specified in (A) – (F) of this paragraph, identified by the department

Senator Hoffman asked about item (A) "avert imminent danger or correct life-threatening situations." He had met with the department the previous week regarding erosion issues near the school in Napakiak. The district believed the school was in imminent danger of falling into the Kuskokwim River within two to three years. He asked if Mr. Mearig would agree that the conditions in Napakiak fell under item (A) or another category. He felt the problem needed to be addressed as soon as possible. He stressed the importance of continuity of education for the students of Napakiak. He calculated that a lack of imminent planning would require extreme solutions to achieve continuity of education such as flying students to another location.

Mr. Mearig affirmed that the department was aware of the erosion in Napakiak. He felt the situation would fall under category A and would fall on the school construction list, as did any school project that included rebuilding or adding new space.

Senator Hoffman affirmed he would be working with the administration to ensure that continuity of education existed for the community of Napakiak. He thought the department shared the same intent.

Mr. Mearig moved to slide 11, "Current Project Categories (AS 14.11.013) (Major Maintenance)":

- (A) avert imminent danger or correct life-threatening situations;
- (B) house students who would otherwise be unhoused; for purposes of this subparagraph, students are considered unhoused if the students attend school in temporary facilities;
- (C) protect the structure of existing school facilities;
- (D) correct building code deficiencies that require major repair or rehabilitation in order for the facility to continue to be used for the educational program;
- (E) achieve an operating cost savings;
- (F) modify or rehabilitate facilities for the purpose of improving the instructional program;
- (G) meet an educational need not specified in (A) – (F) of this paragraph, identified by the department

Mr. Mearig noted that the slide highlighted items C, D, and E; which were projects that would end up on the MMGF list each year and were projects to preserve and protect existing investment in schools and school function.

[9:22:21 AM](#)

Mr. Mearig presented slide 12, "Fund - Category - Entity Relationships," which showed a table that depicted the relationship between project types, entity types, and funding categories. He considered project types and referenced a school construction project that was eligible for funding from the REAA Fund, as well as the SCGF and the MMGF. He noted that debt reimbursement would also be able to fund projects that were similar to school construction projects in statute. He mentioned 70 percent state reimbursement for qualifying projects as well as the scenario of reduced funding at 60 percent. As an illustration of major maintenance, he noted that a project could have no new space. He noted that REAA districts were not eligible to access debt reimbursement. He added that

four city boroughs and small municipalities qualified for a "small municipal district" and had access to the REAA Fund as well as the SCGF and the MMGF and could be eligible for debt reimbursement.

Mr. Mearig continued to address slide 12. He discussed city and borough districts, which were not eligible to fund projects through the REAA Fund. The 30 districts were, however, eligible to get on the SCMF/MMGF priority lists, and had access to debt reimbursement funding when available. He noted that 13 of the 30 eligible districts had been approved for debt reimbursement funding.

Co-Chair Stedman noted that Senator von Imhof had joined the meeting.

9:26:23 AM

Mr. Mearig reviewed slide 13, "Capital Improvement Project (CIP) Eligibility":

1. Six-year capital improvement plan
2. Functioning fixed asset inventory system (FAIS)
3. Proof of required property insurance
4. Certified Preventive Maintenance and Facility Management Program
5. Capital project and not maintenance
6. Participating Share

Mr. Mearig noted that the criteria listed on slide 13 were developed in statute.

Mr. Mearig spoke to slide 14, "Grant Participation and Eligibility":

1. Capital Improvement Project (CIP) Grant Application  
Due from school districts on or before September 1 (annually)  
CIP Application materials are posted on our website(<https://education.alaska.gov/facilities/facilitiescip>)
2. Project Ranking  
Ranked in Accordance with criteria in AS 14.11 and 4 AAC 31
3. Eligibility



Districts must have a six-year plan, a fixed asset inventory system, adequate property loss insurance, and a preventive maintenance and facility management program certified by the department

#### 4. CIP Priority Lists

Initial lists are released on November 5

Final lists are released after any appeals for reconsideration are finalized

Mr. Mearig noted that there was a constant process to review whether the grant application process was effective.

[9:30:33 AM](#)

Mr. Mearig referenced slide 15, "Grant Participation and Eligibility FY2012 - FY2022," which showed a bar graph entitled 'TOTAL CIP GRANT APPLICATIONS.' The graph showed the trends in participation from school districts. The graph showed the number of applications that had been received in each fiscal year. The downward trend line ran into FY 20 and had picked up to pre-FY 20 levels. There had been record application levels in the early 2000's, and district participation had not been as high since. The past year there had been 108 major maintenance projects and 17 school construction projects submitted to the department. There had been zero ineligible projects.

Co-Chair Stedman asked Mr. Mearig to follow up with additional numerics on the bar graph, including the dollar amount for each of the grant applications.

Mr. Mearig agreed to provide the information. He thought the next slide might show some of the information Co-Chair Stedman was interested in.

Co-Chair Stedman thought the next slide showed awards rather than requests.

Mr. Mearig noted that there was a table in the SB 237 report that showed the total value for projects and dollar amounts.

Mr. Mearig showed slide 16, "Grant Awards FY2012 - FY2021," which showed a bar graph depicting awards made in various years. He noted that the three funds were shown. He

discussed a project that used some available balance in FY 21.

9:34:46 AM

Senator Hoffman commented that in FY 19 and FY 20, the legislature funded grants to the REAAs, and the dollar amounts were subsequently vetoed by the governor. He thought it was important for the slide to note how much the legislature had funded. He thought it was important to recall that the legislature had kept up with its commitment to fund grants in the REAA fund.

Co-Chair Stedman asked Mr. Mearig to update the slide and go back to FY 12 so there was a complete data set including the submitted budget and the executed budget.

Mr. Mearig made note of Senator Hoffman's and Co-Chair Stedman's requests.

Ms. Teshner advanced to slide 17, "Debt Reimbursement and Eligibility":

1. Debt Reimbursement program is established in AS 14.11.100
2. Capital Improvement Project (CIP) Debt Application
  - a. May be received at any time the Debt Reimbursement program is open.
  - b. CIP Application materials are posted on our website(<https://education.alaska.gov/facilities/facilitiescip>)
3. Project Ranking
  - a. Projects are not ranked or evaluated for prioritized need
4. Eligibility
  - a. All types of Cities, except 3rd Class
  - b. All types of Boroughs
  - c. Districts must have a six-year plan, a fixed asset inventory system, adequate property loss insurance, and a preventive maintenance and facility management program certified by the department

9:37:50 AM

Ms. Teshner spoke to slide 18, "Debt Reimbursement Trends":

- >Percentage of Annual Debt Service
  - FY1971 - FY1977 100%
  - FY1978 - FY1983 90%
  - FY1984 - FY1994 80%
  - FY1995 - FY1999 70%
  - FY2000 - FY2015 70% / 60%\*
    - > SB64 (Chapter 3 SLA 2015) implemented a moratorium on additional debt reimbursement through FY2020
    - > HB106 (Chapter 6 SLA 2020) extended the moratorium on additional debt reimbursement through FY2025
  - FY2026 - FY20xx 50% / 40%\*\*

\*Northwest Arctic Borough at 90% for bonds between 1990-2006

\*\*Rates shown are reflective of current statute after the moratorium is lifted

Ms. Teshner displayed slide 19, "Debt Reimbursement Trends - Project Values by Percent Reimbursement," which showed a bar graph entitled 'Historic Debt Funding by Reimbursement Rate.' The slide depicted the value of projects that had been reimbursed under each of the percentages, and the majority had been at 70 percent reimbursement.

Ms. Teshner reviewed slide 20, "Debt Reimbursement Trends - State Share of Outstanding Debt," which showed a bar graph that provided a representation of all projected outstanding debt reimbursement to be paid on approved projects, and how the amount would reduce over time as it matured and was paid off. The information assumed the program was funded at 100 percent. She explained that the graph represented the amount the state would reimburse municipalities for approved projects for the bond sale prior to the January 15 moratorium date. She continued that FY 39 was expected to be the last date of state payment for the current program, assuming no new debt was approved by voters. She referenced Handout 2, "State Portion Reimbursement Principal and Interest," (copy on file) which had the data behind the graph on the slide. She cited that the handout had the

total by grantee, district/municipality, and fiscal year; for FY 21 through FY 40. The total outstanding statewide liability from FY 20 to FY 39 was \$608.5 million if fully appropriated.

Co-Chair Stedman asked Ms. Teshner to update the slide and add the previous ten years' data. He asked for more information on the state liability portion.

Ms. Teshner explained that if the program was fully funded, the department would be paying the portion of financing based on eligibility and pro-ratio rates.

Co-Chair Stedman discussed liability. He asked if the state was subject to claims based on short funding the last several years.

Ms. Teshner explained that based on statute, if the funds were appropriated the department would pay the funds out. She understood that the state was liable to make the payments to districts and municipalities when the funds were appropriated.

Co-Chair Stedman thought the wording could be clearer.

[9:42:29 AM](#)

Senator von Imhof wanted to clarify that there was a state statute referenced earlier that indicated the state had an obligation to pay at varying percentages for school outstanding debt. She asked if the state was not following statute due to veto or other mechanisms.

Ms. Teshner referenced AS 14.11.100 (c), which indicated that the funds "may be appropriated annually by the legislature." She explained that if there was not sufficient funding to pay for school debt reimbursement through the appropriation, the department would reduce the payments pro rata. If there was no appropriation provided, the department would not pay for the obligations. She interpreted that the language included the word "may" and was not a requirement.

Co-Chair Stedman wanted to clarify that there was a difference in what the legislature appropriated and what the governor might sign on the executed budget. He thought the legislature had a policy difference with the governor

as to how to deal with the debt reimbursement and the REAA Fund.

Ms. Teshner referenced slide 21, "Debt Reimbursement Trends - Reimbursement Shortfalls," which showed a data table depicting how the School Debt Reimbursement Program had been funded since 1976. She relayed that the program had been fully funded 32 of the past 46 years, and there were significant shortfalls in the 1980s, and some small adjustments in the 1990s. There were veto adjustments in FY 17 and FY 20, and she reminded that the program was vetoed at 100 percent in FY 21. She referenced Handout 3, "Debt Retirement FY 1976 - FY 2020 with estimates for FY 2021" (copy on file), which showed the numbers from the slide in an easier format. She informed that the FY 22 governor's proposed budget proposed funding the School Debt Reimbursement Program at 50 percent.

Ms. Teshner continued to address slide 21. She referenced Handout 4, "School Construction Debt Retirement AS 14.11.100 - FY 2022 Estimated State Aid" (copy on file). The handout showed the breakdown of FY 22 anticipated debt totals by municipality, funded at 100 percent as well as 50 percent as proposed by the governor. There were 18 municipalities projected to receive the funding in FY 22.

[9:46:08 AM](#)

Ms. Teshner discussed slide 22, "Debt Proceed and Refundings":

>Initial Bond Sales

- After bonds are sold, the department identifies how much of approved projects are funded by the new bond.
- Establish any proration's for bonds based on approved project reimbursement rate. (AS 14.11.100(a))

>Refunding of Bonds

- Refunding of current bonds must follow the requirements in AS 14.11.100(j)(2).
- Department evaluates refundings by comparing the annual debt service of the refunding package to the original annual debt service of the bond(s) that are refunded. The refunding must show an annual savings.

Ms. Teshner relayed that any proceeds to the reimbursements were based on the debt schedules and payments that were provided to the department and subject to appropriation through the operating budget. Any prorations on bonds were based on approved project reimbursement rates in accordance with statute. She continued that the department evaluated refunds by comparing the annual debt service of the refunding package to the original debt service of the bond or bonds that were being refunded.

Ms. Teshner turned to slide 23, "Funding Comparison":

REAA/Small Muni - Available to REAA and 4 small municipal districts

- Funds state share of actual project costs
- Projects are funded by priority from DEED lists
- Specific eligibility requirements:
  - 1.No new space for MM
  - 2.Only eligible space for SC
  - 3.Priority to school construction
- Participating share:
  - REAA's- 2%
  - Small Muni - 10% - 20%
- State funding is tied to annual appropriation for debt reimbursement

SC/MM Grant Funds - Available to all school districts

- Funds state share of actual project costs
- Projects are funded by priority from DEED lists
- Specific eligibility requirements:
  - 1.No new space for MM
  - 2.Only eligible space for SC
- Participating share required between 2% and 35%
- State funding is by legislative appropriation to the funds

Debt Reimbursement - Available to any municipality that has the ability to bond

- Funds portion of annual municipal debt payments
- Local government sets own priorities
- Could fund projects that are not eligible for grants - those not eligible for space
- Participating share currently at: 60% if not eligible for space 70% all others

- State funding is based on when the bond was passed and subject to appropriation

9:50:47 AM

Ms. Teshner addressed slide 24, "Additional Handouts and Resources":

- >Supplementary handouts
  - FY2022 School Construction Grant Fund List
  - FY2022 School Construction Project Descriptions
  - FY2022 Major Maintenance Grant Fund List-FY2022 Major Maintenance Project Descriptions

- >DEED's Facilities website:  
<https://education.alaska.gov/facilities-School>

Facility Database  
[https://education.alaska.gov/doe\\_rolodex/schoolcalendar/facility](https://education.alaska.gov/doe_rolodex/schoolcalendar/facility)

Preventive Maintenance & Facility Management Program  
<https://education.alaska.gov/facilities/PM-CIP>

Application and Support  
<https://education.alaska.gov/facilities/facilitiescip->

CIP Grant Priority Lists  
<https://education.alaska.gov/facilities/facilitiespl>

Ms. Teshner discussed the supplementary handouts listed on the slide. She cited that the total state share of the 17 ranked school construction projects was \$162.3 million, and the total state share of the 108 ranked major maintenance projects was \$187.3 million. All of the handouts were available on the department's website. She pointed out that the school facility database was linked on the website and could provide building data including gross square footage and age for school facilities in the state. She added that there was a listserv that could provide email notifications regarding AS 14.11 program notices, facilities-related regulations and publications, and bond reimbursement and grant review committees.

Ms. Teshner noted that slide 25 showed departmental contact information.

Co-Chair Stedman directed attention to Handout 5, "SY2022 Capital Improvement Projects - School Construction Grant Fund" (copy on file). He asked Ms. Teshner to highlight why some of the projects were listed and if the project were or were not included in the budget.

Ms. Teshner explained that the only funding in the budget was the REAA small municipal school transfer of about \$17 million. None of the school construction projects were currently funded through the budget. She noted there was a general obligation bond bill that put \$25 million towards major maintenance. She asked for Mr. Mearig to address projects on the school construction lists.

Co-Chair Stedman wanted to address both lists.

Mr. Mearig noted that Handout 6, "Capital Improvement Projects (FY2022) - Project Descriptions/Construction," (copy on file) gave a list of project details including the square footage, student populations, and costs. He addressed Handout 5 and the school construction list. He discussed the first project on the list, a school construction project in Hollis. An REAA grant had provided a planning grant for the project in FY 20.

[9:55:27 AM](#)

Co-Chair Stedman asked about Item 2.

Mr. Mearig spoke to Item 2 on Handout 5 and Handout 6, which pertained to the Anna Tobeluk Memorial K-12 School in the Lower Kuskokwim School District (LKSD). The project was a renovation/addition and had scored high due to extreme over-crowding. The project also had some development of infrastructure needs. The renovation would be extensive.

Senator von Imhof observed five projects in LKSD. She asked if students were attending in person in LKSD or attending virtually due to the COVID-19 pandemic.

Mr. Mearig was not certain of the attendance status of each school in LKSD. He noted that the district allowed each school to make its own determination. He thought there were 23 communities in the district. He asked if Senator von Imhof was particularly interested in the schools on the project list.



Senator von Imhof felt that the COVID-19 pandemic had spun education delivery on its head, and she wondered how school districts around the state were coping with the situation. She wondered about broadband deficits or needs in each area. She wondered if it made sense to do large school projects going forward. She had just had a finance subcommittee meeting with a presentation from the Department of Health and Social Services. The department had indicated it was pairing down workers by having many engage in telework, and lease space was considerably different. She wondered if it made sense to do something similar with the education system.

Co-Chair Stedman asked Mr. Mearig for information regarding how many years each project had been on the list. He noted that the projects were ranked by priority.

Mr. Mearig offered to provide the information at a later time. He thought the information would be good to add to the summary statement for each project.

Co-Chair Stedman thought some members had a concern that the legislature was not fulfilling its obligation by not providing full bond debt reimbursement, and that school districts would not be able to build schools. He pondered areas of the state with growing populations of children.

10:00:34 AM

Senator Wilson referenced Handout 5 and the project descriptions. He noted that five of the projects had been completed and asked about reimbursement and the FY 22 budget.

Mr. Mearig explained that statutes and regulations provided for the opportunity for reimbursing a district that had to make an investment due to urgency after not being able to access state aid. The district could remain on the list for consideration for reimbursement of expenditures made 36 months prior to the time that the project was placed on the priority list.

Senator von Imhof asked who would be responsible if the state did not come forward with funding.

Mr. Mearig stated that local funding that might be provided (from any school district) would come from reserves that

had been committed. He reminded that municipalities and boroughs had opportunity to invest from other funds. The entity making the first investment would have made the investment pending the opportunity for reimbursement.

10:03:05 AM

Co-Chair Stedman asked if there was a 36-month look-back for reimbursement.

Mr. Mearig stated that expenditures that occurred 36 months prior to the project being submitted to DEED were considered. What the department accepted as eligible expenditures could remain on the list until such time as the project rose to the point of funding.

Senator Hoffman looked at Item 12 and referenced Senator von Imhof's question about schools and the pandemic. He informed that the Yukon-Kuskokwim Delta had the highest rate of COVID-19 in the state. The item was an appropriation request that pertained to water storage and treatment in Kongiganuk. He thought it was clear that student's ability to have fresh water was directly related to the issue of addressing Covid-19. He wondered if the department could look into funding the project with federal COVID-19 funds. He thought there had been many appropriations that were not even as clearly pandemic-related as the request in Item 12.

Co-Chair Stedman asked Mr. Mearig to provide a comparison of projects with funds that were already expended.

Co-Chair Stedman asked about a school outside of Fairbanks that had a drinking water issue. He asked if Mr. Mearig was aware of the situation.

10:05:52 AM

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10:06:03 AM

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Mr. Mearig affirmed that he was familiar with the school facilities and water issue in Chalkyitsik. He furthered that the project need had been identified by the Yukon Flats School District several years previously and had been on the department's project list in the past. He relayed

that the school district had not met all the eligibility requirements for participation in the capital improvement project (CIP) grant list, but the department was working with the district diligently to address the deficiency and get the projects back on the list.

Co-Chair Stedman asked Mr. Mearig to help the committee understand the deficiency issue and provide information on the history of the project and what was needed to bring the project to conclusion.

Mr. Mearig agreed to provide the information.

Co-Chair Stedman requested more information on potential projects that had been dropped off the list as previously discussed. He pondered the reasons for projects being dropped from the CIP list. He wanted a more clear idea of pent-up demand. He acknowledged that the information would be an estimation.

Mr. Mearig agreed to work on getting the information. He noted that the department's source of information was local school districts and might be challenging.

Co-Chair Stedman thought the Department of Education and Early Development might have records that could provide some of the information as projects were on and off lists over time.

Senator Olson asked how many of the projects on the current major maintenance CIP list were in REAAs.

Co-Chair Stedman clarified that the committee was currently looking at the school construction grant fund, after which the committee would discuss major maintenance.

[10:09:50 AM](#)

Co-Chair Stedman addressed Handout 7, "FY 2022 Capital Improvement Projects - Major Maintenance Grant Fund" (copy on file). He reminded that just because an item was on the list did not signify that it would get funded. He noted that there was no funding proposed for the previous list. He asked Mr. Mearig to address the list and speak to any changes to the list over the previous two years.

Mr. Mearig stated that the list showed an eclectic list of needs across the state. He noted that there was a prioritization rubric as part of the application that established the priority of need between projects. He affirmed that the department engaged in diligent research on the projects as part of scoring applications. He thought the lists represented a fraction of statewide need, and thought the lists were impacted by the voluntary process of completing an application with detailed information

Mr. Mearig continued. He thought a greater number of projects on the list might have had some partial or complete funding already provided by the district as a way of resolving the issue as quickly as possible. He noted that Handout 8 "Capital Improvement Projects (FY2022) - Project Descriptions/Maintenance" (copy on file) had prior funding information included.

Co-Chair Stedman clarified that the department ranked the projects, and the legislature did not change the ranking, but rather went through the list in order when discussing. He explained that the process had been established several years ago to prevent political gerrymandering of the list. He explained that the members debated how much of the total amount to put into the capital budget, but not the ranking of projects.

10:15:00 AM

Co-Chair Stedman asked Mr. Mearig to comment on the length of the list. He recalled that several years previously the legislature had fully funded the major maintenance list., and that the subsequent list had been even larger. He thought there was a question about how large the school district's needs were versus how many districts went through the process and took the time to get on the list.

Mr. Mearig agreed that it was true that the program was voluntary and there was much uncertainty as to whether or not there was going to be funding available and whether a district should take time to identify projects.

Mr. Mearig expressed that he had been excited at the creation of the REAA Fund. He acknowledged that the fund indexing had been disrupted at times but he considered that the fund was a great benefit to the capital planning process. He thought it would be helpful if there was

something similar for the major maintenance grant list as well as generally speaking, the funding under the REAA Fund was focused on school construction projects. He pointed out that there was no way that a district could forecast whether to anticipate reimbursement funding. He thought there was some explanation as to why there was a larger list the year following a fully funded list.

Co-Chair Stedman asked if the department had a recommendation as to how far down on the list the committee should be targeting.

Mr. Mearig had made a recommendation to the Office of Management and Budget, but he did not have the information readily available.

Co-Chair Stedman understood he was asking a loaded question. He thought part of the projects were in the bond package submitted by the governor.

Mr. Mearig deferred the question to Ms. Teshner, who had been tracking the bill that provided a funding allocation but not specific projects.

[10:18:05 AM](#)

Ms. Teshner affirmed that the General Obligation (GO) Bond bill [SB 74, introduced in 2021] would put \$25 million towards the Major Maintenance Grant Fund. The department would work down the FY 22 list to fulfill the funding.

Co-Chair Stedman thought the proposed amount would address the first six projects on the list.

Ms. Teshner agreed.

Co-Chair Stedman stated the committee would discuss how to fund capital projects, address the structural deficit, and pay a dividend. He discussed the life of the bond versus the life of what the bond proceeds were spent on. He wondered if projects that had a life expectancy of over 20 years.

Mr. Mearig thought it was fair to say that the project investments would result in something with a new time period. He used the example of a fire alarm system, which might be related to system code and often had a life of 15

years. He thought generally speaking the projects were expected to renew systems to an expected full life.

Co-Chair Stedman asked Mr. Mearig to discuss Mt. Edgecumbe High School (MEHS) and how it was different than other districts around the state.

Ms. Teshner explained that because MEHS was a division of DEED, it did not qualify for AS 14.11 funding. The school provided a deferred maintenance list annually, which the department worked through the statewide deferred maintenance appropriation to try and get funding to work on capital needs. In the proposed GO Bond package, there was also an appropriation of \$7.8 million for MEHS project needs.

10:21:15 AM

Co-Chair Stedman asked for the MEHS list to be submitted to the committee. He noted that there was a need for additional classrooms.

Ms. Teshner relayed that there had been request that included a classroom expansion wing. She offered to provide the committee with a description and cost breakdown of the project.

Co-Chair Stedman continued that another area of concern was replacement of the boy's dorm, which was a former World War II era barracks. He recalled that there were three to four boys in one room with only one desk, and the students had to take turns at the desk. He wanted the department to check the status of the situation and get back to the committee. He had a hard time grasping the idea of four high school students sharing one desk.

Senator Hoffman asked Ms. Teshner about the percentage of students at MEHS that were from REAA school districts. He worried that concern for the school might change with a change in composition of the committee. He asked if she saw a need to change state law in order to allow for MEHS to participate in the REAA School Construction Fund.

Ms. Teshner did not have the figure available but would get back to the committee with the information. She stated the department was always supportive of mechanisms to get MEHS funding for capital needs, whether with a change in statute

or some other manner. She thought there was a policy call to be made.

Senator Hoffman thought the committee should seriously consider submitting legislation to allow MEHS to participate in funding through the REAA Fund.

Co-Chair Stedman asked the department to provide data on the subject. He would query the committee regarding the idea of statute change. He thought it was important to get a headcount of students and a breakdown of the student's communities and school districts. He wondered if there was excess capacity at the school as a result of the COVID-19 pandemic.

10:25:35 AM

Senator Olson asked if the department would be in favor of legislation that allowed MEHS to be eligible for the REAA Fund.

Ms. Teshner expressed that DEED would consider any piece of legislation that was put forward, and that the department was in support of any additional funding mechanisms that would help support the capital needs at MEHS.

Senator Olson referenced his earlier question and queried how many of the projects on the current major maintenance CIP list were from REAA districts.

Ms. Teshner agreed to provide a list with the requested information.

Senator Olson asked how many years the projects had been on the major maintenance list.

Ms. Teshner agreed to provide the information.

Senator Olson asked if there was a cost for school districts to prepare applications for projects to be on the CIP list.

Ms. Teshner asked Mr. Mearig to address the question.

Mr. Mearig affirmed that the applications cost staff time, but he was not certain about the total cost. He mentioned advanced preparatory work such as design and estimates,

which could constitute an investment on behalf of the district. The amount could range from a few thousand to a hundred thousand dollars.

Senator Olson stated his office had been made aware that the process cost school districts tens of thousands of dollars per year to keep projects on the list.

10:28:58 AM

Senator Olson asked about projects coming off the list due to being funded by another source.

Mr. Mearig informed that there could be a variety of reasons a project had been on the list and dropped off. He did not have information that addressed a trend in a specific way. He thought the department had taken steps to make the process more cost-effective for districts to participate. He referenced a change to allow districts to carry forward applications forward with for one additional year if there were no significant changes. The department had introduced changes in regulation to extend the ability for bond reimbursement. He asserted that the department worked with districts to streamline the process.

Senator Olson had additional questions that he would submit in writing via Co-Chair Stedman's office.

Co-Chair Stedman asked if the department had any final comments.

Ms. Teshner thanked the committee for the opportunity to present to the committee. She affirmed that the department would work on providing follow-up information and answers to members' questions.

Co-Chair Stedman thought the earlier part of the presentation was good for the public and new members of the legislature. He thought the "meat" of the discussion centered around how projects on the major maintenance list were being handled with funding constraints while education was a primary constitutional obligation. He relayed that the committee was concerned about pent up demand and the brick-and-mortar school structures.

Co-Chair Stedman discussed the agenda for the following day.



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ADJOURNMENT

10:32:43 AM

The meeting was adjourned at 10:32 a.m.